

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2014-346-W/S

IN RE:)
)
Application of Daufuskie Island Utility)
Company, Inc. for Approval for Water)
and Sewer Rates, Terms and Conditions)

DIRECT TESTIMONY OF
TONY SIMONELLI

1 **Q. PLEASE STATE YOUR NAME, ADDRESS AND BUSINESS**
2 **AFFILIATION.**

3 A. My name is Tony Simonelli. My address is 30 Fuskie Lane, Daufuskie Island
4 South Carolina 29915. I have been a real estate broker on Daufuskie Island for
5 the past eleven (11) years. I was previously Sr. Vice-President for Dendrite
6 International, a technology firm associated with the pharmaceutical industry.
7 Prior to that, I was Vice-President for Human Resources and Administration for a
8 major international shipping company.

9

10 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

11 A. I am testifying on behalf of Melrose Property Owner's Association, Inc.
12 ("MPOA"), and Bloody Point Property Owner's Association ("BPPOA"), both
13 intervenors in this Docket.

14

1 **Q. MR. SIMONELLI, ARE YOU AUTHORIZED TO TESTIFY BEFORE**
2 **THE COMMISSION IN THIS RATE PROCEEDING?**

3 A. Yes. The Boards of Directors of the BPPOA and the MPOA have authorized me
4 to appear and present the views of those organizations regarding the rate increase
5 application (the "Application") filed with the Public Service Commission (the
6 "Commission") by Daufuskie Island Utility Company, Inc. ("DIUC").

7
8 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

9 A. I am here to provide the position of BPPOA and MPOA in response to certain
10 aspects of DIUC's current application to increase its rates.

11

12 **Q. WHAT IS THE HISTORY OF YOUR CONNECTION WITH DAUFUSKIE**
13 **ISLAND?**

14 A. I have been involved with Daufuskie Island since 1986, a property owner since
15 1999, and a full time resident since 2003. I am currently President of the Bloody
16 Point Property Owners Association and have been for the past ten years. I also
17 served a two-year term on the Daufuskie Island Council.

18

19 **Q. PLEASE DESCRIBE MELROSE PLANTATION AND THE MPOA.**

20 A. Melrose Plantation is a largely residential real estate development on Daufuskie
21 Island. It was begun around 1986, and currently consists of 325 lots, 53 of which
22 are developed and 272 of which are undeveloped. The MPOA is an association of

1 the owners of the developed and undeveloped residential lots within Melrose
2 Plantation.

3

4 **Q. PLEASE DESCRIBE BLOODY POINT AND THE BPPOA.**

5 A. Bloody Point is a residential development on Daufuskie that was begun in 1989.
6 It currently consists of 110 lots, 21 of which are developed, and 89 of which are
7 undeveloped. The Bloody Point Property Owners Association is an association
8 whose members are the owners of developed and undeveloped properties within
9 Bloody Point.

10

11 **Q. HOW DO OAK RIDGE AND BEACH FIELDS FIT WITHIN THE**
12 **BLOODY POINT/MELROSE AREA?**

13 A. Both Oak Ridge and Beach Fields are served by the Melrose/Bloody Point portion
14 of the utility system. They are both largely undeveloped tracts. Oak Ridge
15 contains 60 lots – none of which are developed. Beach Field consists of 56 lots –
16 4 of which are developed and 52 undeveloped.

17

18 **Q. WHAT IS THE BLOODY POINT/MELROSE POA'S GENERAL**
19 **POSITION WITH REGARD TO THIS RATE REQUEST?**

20 A. The Utility is proposing to increase the water and sewer rates it will impose upon
21 our members by between 211% and 238%. An increase of this magnitude is both
22 outrageous, and completely unsupported by the evidence DIUC is presenting to
23 this Commission. The Utility has done an extremely poor job of managing the

1 system on the Daufuskie Island. This is a utility system that is located on South
2 Carolina's southern-most barrier island. The Commission well knows from our
3 night hearing that access to the island is by private ferry. There is limited public
4 ferry service to Daufuskie. DIUC's utilization of Guastella Associates to manage
5 its daily operations from Guastella's offices in Boston is expensive and it is not
6 working. The Commission should deny DIUC any rate increase until it can first
7 demonstrate to this Commission that it is capable of proper management.

8 For these reasons, the Commission should deny DIUC's request to
9 increase its rates.

10

11 **Q. ARE THE EXPENSES DIUC PAYS ITS ABSENTEE MANAGER**
12 **APPROPRIATE?**

13 A. I do not believe so. For the test year ended December 31, 2014, the expenses for
14 Outside Management Services were greater than the wages paid to those who
15 operated and maintained the system. We believe that a discrepancy of this
16 magnitude is excessive. On-site management that is more connected with
17 Daufuskie Island would not only improve services, it would also ensure more
18 complete billing and would likely cost substantially less. It is entirely possible
19 that an on-site manager would also eliminate DIUC's perceived need to hire
20 additional labor.

21

1 **Q. WHAT IS THE MELROSE/BLOODY POINT ASSOCIATIONS’**
2 **POSITION IN RESPONSE TO THE UTILITY’S REQUEST TO UNIFY**
3 **ITS RATE STRUCTURE?**

4 A. The Commission should deny this request. Customers within Melrose and
5 Bloody Point currently receive a 22,500 gallon water allowance per quarter. Since
6 our sewer bills are based upon water usage, this allowance applies to the sewer
7 rates that Melrose and Bloody Point customers pay as well. Haig Point customers
8 do not receive this usage allowance. Instead, their water and sewer usage charge
9 begins with the first 1,000 gallons of water a customer consumes.

10

11 As a result of these rate differences, the average customer within Melrose/Bloody
12 Point presently pays materially less for his or her residential water and sewer
13 service than the average customer within Haig Point.

14

15 **Q. HOW WILL DIUC’S RATE REQUEST DIFFERENTLY AFFECT THE**
16 **MELROSE AND HAIG POINT CUSTOMERS?**

17 A. It is easiest to see the difference by looking at a typical customer who uses exactly
18 the 22,500 gallon quarterly allowance. The comparison is as follows:

19 **Dollar Increase of Residential Water & Sewer Rates Proposed by DIUC:**

	Mel./Bloody Pt	Haig Pt	DIUC Proposed
20 Residential Water:	\$ 80.72	\$ 125.57	\$ 250.73
21 Residential Sewer:	\$ 80.72	\$ 140.74	\$ 272.92

22

23

1 **Percentage Increase of Residential Water & Sewer Rates Proposed by DIUC:**

2		Mel./Bloody Pt	Haig Pt
3	Residential Water:	211%	100%
4	Residential Sewer:	238%	94%

5 While Haig Point's 100% increase for water (a *doubling*) and an 94% increase for
6 sewer is certainly excessive, DIUC's customers living in the Melrose/Bloody
7 Point developments will experience a 211% increase (a *tripling*) and a 238%
8 increase for water and sewer, respectively.

9 Eliminating the Melrose usage allowance and applying DIUC's proposed
10 rates will, therefore, unfairly impact those residential water and sewer customers
11 living in the Melrose and Bloody Point communities.

12
13 **Q. DOES THE UTILITY'S OWN RATE INFORMATION SUPPORT**
14 **RETENTION OF THE CURRENT RATE DISCREPANCY BETWEEN**
15 **MELROSE/BLOODY POINT AND HAIG POINT?**

16 A. Yes it does. DIUC obtained the Melrose system out of bankruptcy. As I explain
17 more fully below, it appears that the Utility paid little or nothing for the Melrose
18 system. Consequently, while I am not a rate expert or accountant, it appears to
19 me that the Utility's rate-base for the Melrose/Bloody Point portion of the system
20 is almost zero, or, at the very least, substantially lower than the Haig Point portion
21 of the system. Any water and sewer rates that are fairly based upon the Utility's
22 rate-base must, therefore, be substantially lower for the Melrose/Bloody Point
23 customers than they are for the Haig Point customers.

1 **Q. ARE THERE OTHER FACTS THAT COULD SUPPORT A DENIAL OF**
2 **DIUC’S REQUEST TO UNIFY ITS WATER AND SEWER RATE**
3 **STRUCTURE BETWEEN HAIG POINT AND MELROSE/BLOODY**
4 **POINT?**

5 A. Yes. It is important for the Commission to note that the water system serving
6 Haig Point is completely separate from the water system serving Melrose/Bloody
7 Point. While there is some overlap in sewer treatment between Haig Point and
8 Melrose/Bloody Point, the piping and lift stations are completely separate, and
9 certain portions of the treatment are completely separate as well.

10 For these reasons, the costs of providing water and sewer to these two
11 communities are largely separate and improvements to one system are not likely
12 to benefit the customers of the other.

13

14 **Q. WOULD YOU PLEASE DESCRIBE THE CURRENT ECONOMIC**
15 **CONDITIONS ON DAUFUSKIE ISLAND?**

16 A. Property values on Daufuskie Island dropped by a greater amount than anywhere
17 else in Beaufort County, according to the County Administrator, Gary Kubic.
18 They have continued to drop even though the rest of the County has begun a
19 recovery. Haig Point has lost more than 250 members over the last few years and
20 there are lots available for \$1. Many of the owners of lots there and elsewhere on
21 the island always bring up the carrying costs, which include taxes and fees
22 charged by DIUC for nothing other than future availability. Most lots in the

1 communities are unimproved and therefore the owners are burdened by fees for
2 which they are receiving no service.

3 The Daufuskie Island Resort went into bankruptcy in January, 2009. The Inn has
4 been closed since March of that year. If you tour the Island, you can see the
5 cottages on the ocean that are falling apart, no care having been shown to them
6 since 2009.

7 The owner of Melrose, who purchased out of bankruptcy in 2011 owes over \$28
8 million to his lender, and has not paid back anything owed. There are also
9 constant concerns from vendors about their invoices.

10 Bloody Point was purchased out of bankruptcy in 2011 by an individual who has
11 had connections with the island for over 30 years, That family has put in
12 substantial funds to bring back Bloody Point from what most people had called a
13 sad state. But there is concern as to how long anyone can keep putting money
14 into the island.

15 The island is split in two by the line created many years ago within the Coastal
16 Barrier Resource System, known as CBRA, which does not allow for federal
17 flood insurance to be obtained by owners on behalf of the island. The insurance
18 costs on that half of the island can be as much as \$20,000, while on the other side
19 it remains minimal.

20 My point is that this island is in bad shape economically and DIUC is asking to
21 make it worse.

22 In addition to being the President of the Bloody Point POA, I am a real estate
23 broker and I can tell you that the proposed increases will put the availability fees

1 above the taxes for many lots, and will further prevent owners from retaining their
2 properties on this economically distressed island.

3

4 **Q. ARE THERE ANY EXTRAORDINARY MAINTENANCE COSTS THAT**
5 **DAUFUSKIE PROPERTY OWNERS MUST PAY THAT FURTHER**
6 **INCREASE THE FINANCIAL HARDSHIP THEY ARE EXPERIENCING?**

7 Yes. As a barrier island, Daufuskie has experienced some extraordinary problems
8 that property owners have had and will continue to need to rectify. One example
9 is that property owners had to build two groins into the water to solve a major
10 erosion problem, and we continue to collect for their maintenance to address
11 ongoing potential erosion. The State of South Carolina provided no financial
12 assistance for this project. We also have a crumbling sea wall at Melrose that
13 threatens homes along the beach there. Repairing this wall will cause another
14 major expenditure.

15 We are an island that gets no help from the county or state; we have no
16 regular ferry system other than the one that Haig Point Club and Community
17 Association provides exclusively to its members. Some property owners within
18 Melrose and Bloody Point have opted to join Haig Point, at great cost, solely in
19 order to have a reliable and necessary link to the mainland.

20

21 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

22 A. Yes it does. I appreciate the Commission's consideration of our evidence and
23 the opportunity to present our position before you.